15 October 2019

Upsized underwritten placement

- Equity raising and debt restructuring to successfully recapitalise the Company
- Successful underwritten conditional placement, to sophisticated and professional investors, at $0.10 per share to raise $170 million before costs
- Share Purchase Plan of up to $20 million at $0.10 per share, the same price as the placement
- FY20 underlying EBITDA guidance of $42 – 46 million
- Proposed refinancing of senior debt arrangements including debt repayment, debt write-off and new $75.5m facility maturing November 2022
- Post capital raising net debt to FY20 underlying EBITDA guidance of 1.2 – 1.3x
- Net proceeds of equity raising to be used to repay debt, strengthen the Company's balance sheet and provide working capital
- Significant restructuring initiatives to improve business performance and reduce cost base

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Retail Food Group Limited (**RFG** or the **Company**) today announced a fully underwritten placement, to sophisticated and professional investors, of 1,700 million ordinary shares at $0.10 per share (**Offer Price**) to raise $170 million before costs (**Placement**). The Placement is subject to shareholder approval at a general meeting of the Company to be held on or around 19 November 2019.

The Company also intends to offer a Share Purchase Plan (**SPP**) at $0.10 per share, the same price as the Placement, to raise up to a further $20 million before costs[1].

Net proceeds of the Placement and SPP (together the **Offer**) are intended to primarily be applied to repay debt, strengthen the Company's balance sheet and provide working capital.

The Placement is fully underwritten by Petra Capital and Shaw & Partners.

RFG Executive Chairman, Mr Peter George, said: *"We are delighted with the support received for the Placement, and welcome a number of highly credentialed and supportive institutional investors to the shareholder register. The Board would like to thank its existing shareholders, franchisees and other stakeholders for their ongoing support throughout the recapitalisation and restructuring process. The recapitalisation is transformational for the RFG business and will allow the RFG team to continue to harness the underlying value of the franchise network and enhance franchisee profitability."*

The equity raising forms part of a wider recapitalisation plan, with the Company's existing senior lenders (**Lenders**) having entered into a binding commitment letter and term sheet, subject to various conditions including receipt of $118.5 million of proceeds from the Offer to be applied in partial repayment of the senior debt, by which the Lenders agree to extinguish $71.8 million of existing senior debt, and to provide a new $75.5 million term loan facility maturing in November 2022 to refinance existing senior debt, with amortisation and covenants acceptable to the Company[2]. To facilitate the Offer the Lenders have agreed to extend the existing facilities until 28 February 2020.

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[1] The SPP is not underwritten. However, the Company has also agreed to make a small 'top-up' placement to Invesco (which will hold 19.9% of the Company immediately following settlement of the Placement), following the SPP, to maintain its holding at 19.9% of the Company.

[2] Net proceeds of the SPP and the 'top-up' placement are intended to be applied to the further reduction of debt.

RFG Executive Chairman, Peter George, said: *"After assessing a range of options for the Company, the Board considers that a combination of an equity raising and restructure of the Company's existing debt facilities represents the most appropriate course of action to improve the Company's balance sheet, and provide Management a stable platform to drive ongoing improvement initiatives."*

Equity Raising:

Equity raising of up to $190 million consisting of a fully underwritten $170 million institutional placement and SPP of up to $20 million[3].

As the underwritten Placement exceeds the Company's capacity under Listing Rule 7.1, the Placement settlement remains subject to the approval of RFG's existing shareholders, at a general meeting of the Company to be held on or around 19 November 2019.

The SPP will allow eligible Australian and New Zealand shareholders on the register on the record date, 7.00pm (AEDT) on 10 October 2019, to acquire up to $30,000 worth of new shares, subject to scale back at the Company's absolute discretion.

The Offer Price of $0.10 per share for the Placement and SPP represents a 41.2% discount to RFG's closing price on 10 October 2019, and a 42.0% discount to the five-day VWAP ending 10 October 2019. All new shares issued under the equity raising will rank equally with existing ordinary shares.

The SPP is conditional on completion of the Placement. Any SPP shares will be issued under the Company's 15% placement capacity under Listing Rule 7.1, following approval of the issuance of Placement Shares, and following that issuance. The Company currently intends to refresh its placement issuance capacity at its AGM, to be held on 29 November 2019. The Company has also agreed to make a small 'top-up' placement to Invesco, following the SPP, to maintain its post-Placement holding at 19.9% of the Company[3].

A summary of the key terms of the underwriting agreement is provided on page 44 of the investor presentation released to the market contemporaneously with this announcement (**Investor Presentation**).

Debt Restructure:

RFG has entered into a binding commitment letter and term sheet with its Lenders which provides for the following debt restructure (**Debt Restructure**):

- A minimum $118.5 million of net placement proceeds to be applied to the reduction of debt;
- Extinguishment of $71.8 million of existing debt; and
- The provision of a new $75.5 million debt facility maturing in November 2022 to refinance existing senior debt. Proceeds from the equity raising (net of transaction costs) in excess of $170 million will further reduce this debt facility amount.

The Debt Restructure remains subject to certain conditions, including entry into definitive full form documentation, further particulars of which are provided in the Investor Presentation. Final full form

[3] The SPP is not underwritten. However, the Company has also agreed to make a small 'top up' placement to Invesco (which will hold 19.9% of the Company immediately following settlement of the Placement).

documentation is required to be completed prior to the general meeting to meet the conditions of the underwriting agreement.

To facilitate the Offer, the Lenders have agreed to extend the existing facilities until 28 February 2020.

Mr George extended sincere thanks to each of the Company's Lenders, NAB and Westpac, for their ongoing support, patience and commitment to RFG and its turnaround plan, and ultimately, for providing the Company a fresh opportunity to establish a new platform for stabilisation and business improvement.

Transaction Outcomes:

The Debt Restructure and equity raising will facilitate a significant reduction in the Company's net debt, from c.$260 million or c.6.0x underlying FY20 EBITDA guidance, to c.$54.6 million or c.1.2x underlying FY20 EBITDA guidance[4].

Following completion of the Offer and debt restructure, RFG will have a sustainable go forward debt facility, and a liquidity buffer to provide stability whilst management implements various performance improvement initiatives.

Over the 2019 financial year, the Company and its advisers have been actively exploring a range of debt reduction options, and have engaged with a number of third parties regarding potential alternative transactions. As announced to ASX on 9 July 2019, the Company received an indicative non-binding proposal from Soliton Capital Partners to provide approximately $160 million to recapitalise the Company. The Company granted limited exclusivity to Soliton Capital Partners to enable discussions to continue between the parties and for further due diligence to be undertaken. The Company engaged in extensive discussions with Soliton Capital Partners during the exclusivity period. However, the exclusivity period has now expired, and the Company has not received any binding proposal from Soliton Capital Partners at this time.

The Company considers the Debt Restructure and equity raising to be the best outcome available to the Company and shareholders, delivering a strengthened balance sheet and an opportunity for stabilisation and business improvement.

Operational Focus:

Management remain focused on business improvement, including driving franchise business performance through strategic initiatives including product category extensions and marketing campaigns to drive foot traffic and revenue for franchisees.

[4] Assuming total Placement proceeds of $170 million and excluding proceeds from the SPP and the potential 'top-up' placement to Invesco.

RFG is targeting an additional c.$30 million gross margin generation into the franchisee network level from current initiatives, which include driving:

- Significant savings to franchisees in connection with rental arrangements, fit-out and refurbishment costs;

- Cost of goods reductions, including a c.15-20% reduction in wholesale coffee pricing (dependent upon brand) implemented 1 July 2019, which had delivered a c.18% increase in average coffee volumes ordered per store in July 2019 compared to prior month, and a 10% increase compared to July 2018;

- Franchisee sales through new product ranges and marketing support, with the potential to materially increase Average Transaction Values and Same Store Sales, leveraging an expected additional c.$4 million[5] for direct marketing spend through optimisation of marketing funds.

  The Company has over 87 product and marketing campaigns planned across the brand portfolio for FY20. Eight products launched across Gloria Jean's, Michel's Patisserie and Brumby's Bakery so far have generated estimated annualised network sales of $10 million to date. Refer to pages 24 and 25 of the Investor Presentation for further information.

At a corporate level, RFG has:

- Achieved c.$10.7 million[6] per annum in payroll reduction following FY19 restructuring activity.

- Identified further annualised savings of c.$8.0 - $9.0 million per annum, expected to be delivered via an FY20 cost-out plan that would incur one-off cash expenditure of c.$5.1 million.

- Identified additional cost savings, from system investment, earmarked for FY21, targeted to deliver c.$2.0 - $4.1 million in savings at an expected cost of c.$5.0 - $6.0 million.

Refer to page 15 of the Investor Presentation for further information.

Mr George noted that Dairy Country operations were now expected to be retained in the near term, however, the Company would look to close or divest the loss-making Hudson Pacific Foodservice business prior to 31 December 2019.

In terms of management post recapitalisation, Mr George has agreed to continue in his role as CEO and Executive Chairman subject to his post recapitalisation performance rights package being approved by shareholders at the Company's AGM on 29 November 2019. Further details in relation to Mr George's package are included on page 43 of the Investor Presentation.

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[5] Compared to FY18. Expected additional direct marketing spend of c.$2m compared to FY19. Restructuring of marketing functions and optimization of marketing funds commenced in FY19, with a part year impact of marketing enhancements enjoyed during that period.
[6] Excludes the Manufacturing and Distribution business unit (i.e. Dairy Country, Hudson Pacific and Bakery Fresh).

Outlook:

The Company reiterated FY20 underlying EBITDA guidance in the range of $42.0 - $46.0 million, assuming full year contributions from all continuing business units, but excluding the impact of AASB15 and AASB16[7].

Whereas retail continues to represent a challenging sector, RFG is beginning to observe the positive impacts of the business improvement measures being implemented by the Company. The Company continues to enjoy an established franchise network with a portfolio of household brands, complemented by vertically integrated wholesale coffee operations and a cheese processing business whose performance is anticipated to improve during FY20.

Key Dates[8]

Event	Date
SPP record date	10 October 2019
Trading halt lifted and capital raising results announced	15 October 2019
Notice of general meeting lodged	18 October 2019
SPP opening date	18 October 2019
General meeting date	19 November 2019
SPP closing date	22 November 2019
Settlement of new Placement shares	25 November 2019
Allotment of new Placement shares	26 November 2019
Allotment of SPP shares	2 December 2019

ENDS

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About Retail Food Group Limited:

RFG is a global food and beverage company headquartered in Queensland. It is Australia's largest multi-brand retail food franchise owner and a roaster and supplier of high-quality coffee products. The Company also operates in the foodservice and dairy processing sectors. For more information about RFG visit: www.rfg.com.au

[7] Excludes Hudson Pacific Foodservice, which will be classified as a Discontinued Operation; Includes Dairy Country operations; FY19 underlying EBITDA was $44 million, excluding the impact of AASB15 and including Dairy Country operations, consistent with prior guidance. Underlying EBITDA is a non-IFRS financial measure. Non-IFRS financial measures have not been subject to audit or review.

[8] All dates are indicative only and subject to change without notice, in agreement with the underwriters, in accordance with the Corporations Act and ASX Listing Rules.